

GST: The future of Indian economy

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Abstract

The most path-breaking amendment to the Indian taxation system in the recent past can be indicated towards nothing other than the introduction of the Goods & Services Tax or GST in common. After huge debates and discussion, GST finally has come to be implemented in India and it has to achieve a lot more than any other amendment to the taxation structure. This is because it replaces all other forms of indirect taxes that were levied by the Central as well as the various State Governments and it is placed as the whole and soul of the economy as taxes in relation to transaction of all goods and services are to be paid in the form of GST. This occupies a prominent position as a significant amount of government revenue accrued from the indirect taxes, and hence, if GST fails, the economic hardship that the economy will have to undergo will be beyond repairs. The GST has been aptly regarded as the future of the Indian economy as it has the ability to foster great progress, growth and development in the economy because of its various unique features and more importantly, its far-reaching effects on the economy. The paper provides a clear idea about the concept of GST and throws ample amount of light upon its features and advantages which makes it the future of the Indian economy in the true sense.

Keywords: GST, goods and services tax, indirect tax, economy, tax credit

Introduction

Goods & Services Tax or GST is the latest development in the sphere of Indian Taxation. Goods & Services Tax, popularly referred to as GST is a comprehensive national indirect tax, which seeks to replace all the existing indirect taxes imposed by the Central Government as well as the State Governments and is levied on all the goods and services throughout the country. Under the GST regime, the seller of goods or the service provider can claim the input credit of tax paid by him (commonly referred to as input GST) for purchasing the goods or procuring the service. Thereafter he can utilize that credit of GST to set off against the amount payable on the supply of goods or services (commonly referred to as output GST). Thus, it reduces and eliminates the concept of double taxation and charges tax on the consumption and only on the value-addition made in the goods and services at each stage of the supply chain. GST is often referred to as a last-point retail tax as it is actually a tax based on the final consumption. France was the first country which introduced a comprehensive goods and service tax Regime in 1954. The Goods and Service Tax (GST) is proposed to be a comprehensive indirect tax levy on manufacture, sale and consumption of goods as well as services at a national level. The GST rate in various countries ranges from 5 per cent in Taiwan to 25 per cent in Denmark.

Understanding the concept of GST

GST stands for “Goods and Services Tax”, and is proposed to be a comprehensive indirect tax levy on manufacture, sale and consumption of goods as well as services at the national level. Its main objective is to consolidate all the existing indirect taxes levied into a single indirect tax with the purpose of simplifying the complicated tax structure and creating

efficiencies in tax administration.

In the international context, GST is a single levy for all the transactions related to goods and services. India seems to incorporate the GST regime on the same lines with a few modifications necessary as per the nature of its economy. Under the Indirect Tax Regime of India, the multiplicity of taxes and tax base being fragmented between Centre and States have resulted in a complex system of interconnected legislations leading to substantial distortions, cascading of taxes and adversely effecting growth in Gross Domestic Production (GDP), apart from a lot of confusion and uncertainty. GST aims at addressing some of the very basic limitations of the prevailing Indirect tax structure, such as no imposition of tax on the value added post the stage of production, no integration of VAT on input goods with service tax on services at the State level, which results in cascading effect of taxation, etc.

Substitution of existing taxes

GST aims to be the comprehensive single indirect tax in place of the all the forms of indirect taxes that are imposed by the Central and the State Governments. GST intends to replace the Indirect taxes imposed by the Central Government, such as:

- Central Excise Duty
- Export Duty
- Surcharges
- Cesses
- Service tax
- Medicinal excise & Excise on Toilet Preparatories

Similarly, GST also aims at replacing the following indirect

taxes imposed by the State Government, viz.

- VAT or Sales tax
- Entertainment Tax
- Entry Tax or Octroi
- Purchase Tax
- Luxury Tax
- Taxes on Gambling, Betting and Lottery.

Features of GST

GST is a comprehensive indirect tax which aims at replacing all other forms of indirect tax prevailing in the market and is imposed on goods and services alike and at the same percentage without making any exception, on the value added at each stage of production. The main features of GST are discussed as under:-

- GST is based on the principle of value added tax. It is not charged on the whole value of the good or service, rather focuses on the value addition made at each stage of production. It focuses on voluntary compliance.
- GST aims at being an independent and comprehensive tax in itself as it is collected on both goods and services alike, at the same rate in place of multiple taxes of indirect nature.
- GST is also characterized with minimum number of floor rates of tax. In general, it does not exceed two rates.
- Since, GST aims at becoming a comprehensive levy in itself; it eliminates all the scope for the levy of other forms of taxes, such as, cess, additional tax, re-sale tax, turnover tax, special tax, etc.
- Also, as discussed above, GST aims at the substitution of all the indirect taxes imposed by the Central & State Governments and thereby, eliminate the scope for multiple levy of tax on goods and services, such as, sales tax, octroi or entry tax, entertainment tax, luxury tax, etc.
- The imposition of GST is duly under the law and follows a uniform procedure throughout the nation under a single administration.
- GST also aims at avoiding the multi-stage levy and focus on a single point of taxation for which it is imposed at the time of consumption of goods or services by the ultimate consumer.

Advantages of GST

The introduction of the GST in the Indian economy has been really welcomed by a large segment of the economists, because of the certain advantages that it affords, such as:

- GST would simplify the complex structure of Indian taxation as it would eliminate the levy of taxes at the multiple stages of production and will introduce a „single point of taxation“.
- GST will replace all other forms of indirect taxes imposed by the Central and the State Governments and will be the one and only indirect tax throughout the country.
- GST will reduce the floor rates to a maximum of one or two floor rates, thereby reducing a lot of confusion and doubts in the minds of the taxpayers.
- Since, GST will be highly based on voluntary compliance; it will significantly reduce the compliance cost.
- GST will significantly deal with the issue of cascading effect of taxation and will not allow the effects of

cascading effects of taxation to penetrate into the economy.

- GST will have a significant impact in enhancing the efficiency in terms of manufacturing and distribution, reducing the cost of production of goods and services and increasing the demand and production of goods and services.
- GST reduces litigation by simplifying the complicated legal framework of Indian taxation.
- GST promotes economic efficiency and competitive spirit in the international markets, as the simplified structure allows and encourages the producers to produce at their optimum level.
- GST results in expanding the tax base, bringing more people under the tax-net and ultimately, results in the increased revenue to the Government.
- Since, it remains to be the only tax in place of all other taxes, it is expected to bring higher compliance and lower administrative cost in collecting it.
- GST is expected to have a huge impact on the foreign trade as it is expected to enhance both the import and exports to a significant extent.

Conclusion

GST is a harmonized consumption-based taxation system, whose introduction will bring an end to a varied number of indirect taxes presently being levied by Central Government and State Governments. The GST Act has been passed and the significant changes in the Constitution of India have been made in order to make the machinery for the implementation of GST work. GST is all set to be applicable from 1st July, 2017. The introduction of GST is assured to bring monumental changes and it is highly expected that these changes are going to be in the positive direction for the economy. The simplified tax structure, the certainty of payment, the convenience of payment and the enlargement of the tax-base along with strengthening the tax-net is undoubtedly leading to increased revenues of the Government, thereby, ensuring growth and progress of the economy.

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